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SIPDIS

SENSITIVE

STATE FOR AF/S A. GALANEK
STATE PLEASE PASS TO DEPT OF COMMERCE
GABORONE PLEASE PASS TO SAGC AMANDA HILLIGAS

E.O. 12958: N/A

TAGS: [ECON](#) [ELAB](#) [ETRD](#) [KTEX](#) [MI](#)

SUBJECT: GARMENT MAKERS NOT PANICKING ABOUT QUOTAS

SUMMARY

1. (SBU) Despite the impending demise of quotas, Malawi's garment makers expect to see few changes in the U.S. market in the near future. They are banking on the prospect of protective measures against China becoming a reality in the next few months. Malawi-based companies also have lower capital investment and lower operating costs than regional competitors, which makes them less concerned about the long run. The GOM, meanwhile, has done nothing to prepare for potential downturns in the industry. End summary.

GARMENT BUSINESS AS USUAL

2. (U) In the face of the beginning of the end of quotas in January 2005, Malawi's garment manufacturers are taking a "wait and see" approach. Recent conversations with several garment industry executives have shown that they expect the USG to implement some last-minute restrictions on Chinese imports to the U.S., which would give them at least momentary breathing space under the African Growth and Opportunity Act (AGOA). The manufacturers are generally not planning any drastic changes in their operations or investments.

3. (SBU) One manufacturer is suspending plans for one year its plans to build a plant for the U.S. market. Others have told us that they intend to work on cutting costs and to lobby the GOM to make faster progress on the Nacala Corridor project, providing cheaper and more reliable access to sea shipping. In general, though, the industry here seems to be operating on the assumption that their U.S. markets will remain fairly stable over the next year.

SHORT-TERM CONFIDENCE IN MALAWI'S ADVANTAGES

4. (U) At least one Malawi-based manufacturer describes the labor environment as an advantage for Malawi over other African countries. Workers here earn about \$30 per month, as opposed to \$120 per month in Lesotho and even more in Swaziland. This is expected to continue balancing out Malawi's very high transportation costs. Other advantages include a better security environment and docile unions.

5. (SBU) Another advantage not cited by the garment makers is the low level of capital and organizational investment here. Factories tend to be cheaply leased, re-purposed buildings with few fixed capital improvements; most management staff is typically resident aliens. Thus, current operating costs account for nearly the whole picture, and long-term prospects are less important than in locations where more has been committed. Simply put, Malawi's garment makers are focused almost exclusively on the short term.

6. (SBU) The Government, meanwhile, was unaware of the impending changes until we mentioned it in recent conversation with Trade Ministry officials. Not surprisingly, they have made no plans for potential shifts in the export market nor for the unemployment that would almost inevitably follow. Embassy is undertaking an effort to help the GOM focus on developing an export strategy, which includes using the Southern Africa Global Competitiveness hub to target other potential AGOA exports.

COMMENT: GOVERNMENT NOT ENGAGED

7. (SBU) Malawi-based manufacturers' apparent unconcern over the lifting of quotas may be partly naivete, but we interpret

it as mostly a sign of their confidence in the U.S. garment industry's lobbying ability. Certainly they have their reasons for short-term equanimity. But the Government's ignorance of the situation and its longer-term implications is more worrisome. AGOA is estimated to account for some 7,000 otherwise scarce manufacturing jobs here, and the GOM has little idea what is happening in the sector. We view this as symptomatic of the GOM's general lack of effective engagement with the private sector and with the nuts-and-bolts trade issues affecting it. Changing that situation will be key to energizing Malawi's economy.

GILMOUR